

DDIS 64-1235

20 MAR 1969

Mr. Chilton S. Cabot  
Scudder, Stevens & Clark  
10 Post Office Square  
Boston, Massachusetts, 02109

Dear Mr. Cabot:

STAT  tells me that he has explained to you that the Central Intelligence Agency is considering the creation of a pension trust and that you have offered to confer with us on our planning problems Wednesday morning, 26 March.

In order that you may have an adequate understanding of our objectives and problems before we meet, I will review the situation briefly.

Agency employees participate in either the Civil Service or the Central Intelligence Agency Retirement System. Each system provides reasonable retirement benefits related to age, service and salary, and, in addition, for automatic cost-of-living increases when warranted. Nevertheless, there are special factors relating to employment in this Agency which induce us to believe that a supplemental savings and investment plan would be a valuable addition to our total Agency retirement program.

For one thing, Agency policy sets the normal retirement age at sixty. This is more than five years younger than the average voluntary retirement age in Government service and, other things being equal, the earned annuity is therefore lower than for the average Government annuitant. In addition, a substantial number of our employees serve for extended periods in areas and under conditions where they have neither the time, information, or facilities to effectively manage a personal investment program.

We intend to qualify our voluntary savings and investment plan with the Internal Revenue Service as a tax exempt pension trust. It will be somewhat unusual in that the Agency will make no direct contributions thereto.

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Employee contributions will be by payroll allotment, subject to such limitations as to percentage of earnings as the Internal Revenue Service may prescribe.

The principal incentive for employee participation, beyond the tax shelter benefit and the convenience of payroll savings, clearly must be the individual's conviction that the plan offers him a better way to invest his long term savings to achieve maximum growth with reasonable safety than any other form of personal investment. In this connection, it can be assumed that CIA employees collectively are fairly sophisticated in their economic understanding, know the difference between saving for interest and investing for dividends and appreciation; that they understand and are concerned with the forces of inflation, and seek to hedge by making effective equity investments.

If our analysis is correct, our problem, first, is to determine the investment philosophy or philosophies that would be most responsive to the needs and objectives of our employees and, then, to select a specific investment medium or mediums that will attract the savings of our employees because they show the greatest promise of accomplishing their objectives. Modify this, perhaps, by the Agency's desire that the program be carried out with minimum work, worry, and expense.

It is here that we seek experienced counsel. We would appreciate your views as to the investment philosophy(s) you would recommend for long term employee savings and also your comments and recommendations as to the investment medium(s) most appropriate for the investment management of the trust funds involved. Our preliminary discussions within the Agency have centered on three principal possibilities:

- a. an investment portfolio managed by the trustees with the advice of professional investment counsel;
- b. a portfolio selected and managed by an independent investing institution or professional investment counsel having complete discretion over the portfolio;

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c. investment in one or more mutual funds selected by the trustees with the advice of professional investment counsel - probably offered to employees with the right to select the fund or funds they wish to invest in.

I understand that you will be expecting us about 11:00 A.M. on Wednesday, 26 March. We are leaving Washington at 9:00 A.M. on Northeast's Flight #302 and are scheduled to arrive at Boston at 10:10 A.M. We will call from the airport.

STAT

  
Special Assistant to the  
Deputy Director for Support

STAT  
cc: Mr. 

SA-DD/S/EDE:bak (20 Mar 69)

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